



to: **Janette Casillas** date: **June 14, 2011**  
from: **Pete Davidson** subject: **PCIP Claim Cost Estimate**

As requested, we have updated our estimate of average claim costs for the Pre-existing Condition Insurance Program (PCIP).

Initial claim cost estimates for California's PCIP plan were developed under the assumption that PCIP enrollees would have attributes similar to those of participants in California's other high risk programs, MRMIP (Major Risk Medical Insurance Program) and GIP (Guaranteed Issue Pilot Program). PCIP claim cost estimates were based on historical claim costs observed in the MRMIP and GIP programs, adjusted for differences in benefits and trended to 2011, resulting in an assumed average 2011 PCIP incurred claim cost of approximately \$1,100 per member per month (PMPM).

However, consistent with PCIP programs around the country, California's PCIP enrollment has been much lower than expected. As of April 30, 2011, California PCIP enrollment was 2,436 members. Early claims experience for this population indicates costs are significantly higher than initially estimated, which is also consistent with experience reported in other PCIP programs. We believe the higher than expected claim costs are the result of adverse selection in which, at least initially, the program is predominantly attracting individuals with more significant healthcare needs than those in the state high risk pools.

Though a number of factors complicate the development of revised cost estimates, including the short time the program has been in operation, the incompleteness of the claims data, the lack of credible size of the population, and the PCIP plan calendar year deductible which reset in January, we believe the emerging PCIP claims experience is the best source of information from which to prepare PCIP cost estimates. Based on claims paid through April 2011, we estimate average 2011 PCIP incurred claim costs will be approximately \$2,500 PMPM under the current design. It is possible that as PCIP enrollment grows, average claim costs may moderate as more "average" enrollees are added. We will continue to monitor PCIP claim costs and make adjustments as necessary to ensure California's PCIP program operates within its allotted subsidy.

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Please contact Pete Davidson at 415-498-5636 if there are any questions.